

Housing Assistance Increases in 2000

Most housing assistance programs will be funded at higher levels in 2000 than in 1999. There are few major changes in large Federal housing programs, but they are evolving in ways that reflect housing legislation of the prior 2 years. Changes reduce restrictions on the use of housing funds, provide incentives to work, and increase the range of housing choices available to program participants.

Rural and urban areas face broadly similar housing policy issues, with similar budget priorities and many of the same housing programs. In addition, social and economic similarities between urban and rural areas outnumber dissimilarities when it comes to housing policy and welfare reform. Also universal is the challenge of increasing the stock of affordable housing, while promoting greater tenant choice in where to live via portable housing vouchers.

At the beginning of 2000, homeownership was at a record high; over three-fourths of non-metro and two-thirds of all U.S. households owned their homes. While the rate of homeownership is lowest for low-income and minority populations, it is growing and at a more rapid rate than that for other households. In both rural and urban America, low-income and minority households are those most dependent on rental housing, and their share of all renters continues to grow. Thus, most explicit housing assistance expenditures (as opposed to tax expenditures associated with housing tax breaks) are targeted at rental housing, despite the Federal goal of promoting homeownership. Only USDA operates a major program that promotes home purchase by low- and very low-income households.

Growth in Federally Financed Homes in 2000

One of the more significant areas of growth in rural economic development program activity in 2000 is in USDA's Rural Housing Service's (RHS) programs, and much of this growth involves the programs that benefit low- and very low-income households through subsidized direct loans and rental assistance. All funding levels refer to an October 1-September 31 fiscal year.

Section 502 is USDA's main housing loan program, providing over \$1 billion in direct loans and over \$3 billion in loan guarantees for the purchase of single-family homes. RHS expects the total amount loaned under the direct loan program will increase by about 20 percent in 2000. However, appropriations for this program have actually declined because the average subsidy per loan is smaller (table 1). As might be expected, this program disproportionately benefits rural areas. In 1998, direct loans per capita were \$9.75 in non-metro areas and \$2.47 in metro areas. Although the program benefits rural areas nationwide, the highest benefits, in per capita dollars, were in low-income areas, such as in the South, and in rapidly growing areas, such as in the West (fig. 1).

The section 502 guaranteed loan program requires less Federal money but finances more homes because loans are made at market interest rates and receive no interest subsidy. In 2000, this program is expected to guarantee \$3.2 billion in single-family home loans, up 7 percent from 1999. In 1998, the per capita benefits from this program were also highest in rural areas (nonmetro \$24.01, metro \$7.71); however, the distribution of program benefits shows a different regional pattern, with benefits generally higher in the North than in the South (fig. 2).

RHS's section 504 very low-income housing repair loans and grants program grew in funding in 2000. Direct loans from this program are projected to rise to \$32.4 million, and grants will increase to \$25 million. In addition, early appropriations of supplemental disaster funds will supply another \$15.6 million in section 504 loans and \$11.5 million in section 504 grants. Funding also is rising for RHS's other important homeownership grant program, Mutual and Self-Help grants, up 8 percent to \$29 million in 2000. In addition, some of the smaller (under \$10 million) RHS homeownership programs will increase program activity in 2000, including Self-Help housing loans, Housing Site Development loans, and Supervisory and Technical Assistance grants. Slight decreases in program

Table 1

Federal funding for selected housing programs by fiscal year
Largest percentage increase is expected for USDA's single-family direct loan program

Program	1999 actual	2000 estimate	Change	Rural areas most affected by the program ¹
	Billion dollars		Percent	
USDA/RHS:				
Single family (sec. 502)				
Direct loans	0.97	1.16	20	South, West, and poverty counties ²
Guarantees	2.98	3.20	7	Outside the South ²
Multifamily (sec. 515)	0.11	0.11	0	Northeast, South, totally rural, adjacent, and manufacturing counties
Rental assistance	0.58	0.64	10	West, South, totally rural, farming, and poverty counties
VA:				
Loan guarantees	43.09	32.12	-22	West, urbanized and retirement counties
HUD:				
FHA single-family mortgage insurance	113.17	122.34	8	West, retirement, and commuting counties
Section 8 public housing	19.44	19.96	3	Northeast, urbanized, government, and services counties
Home Investment (HOME)	1.60	1.60	0	Northeast, West, and government counties
State/small cities community development block grants	1.27	1.27	0	Small towns and rural areas in farm and poverty States

Note: HUD = Housing and Urban Development; USDA = U.S. Department of Agriculture; RHS = Rural Housing Service; VA = U.S. Department of Veterans Affairs; FHA = Federal Housing Administration.

¹County types are defined in the appendix.

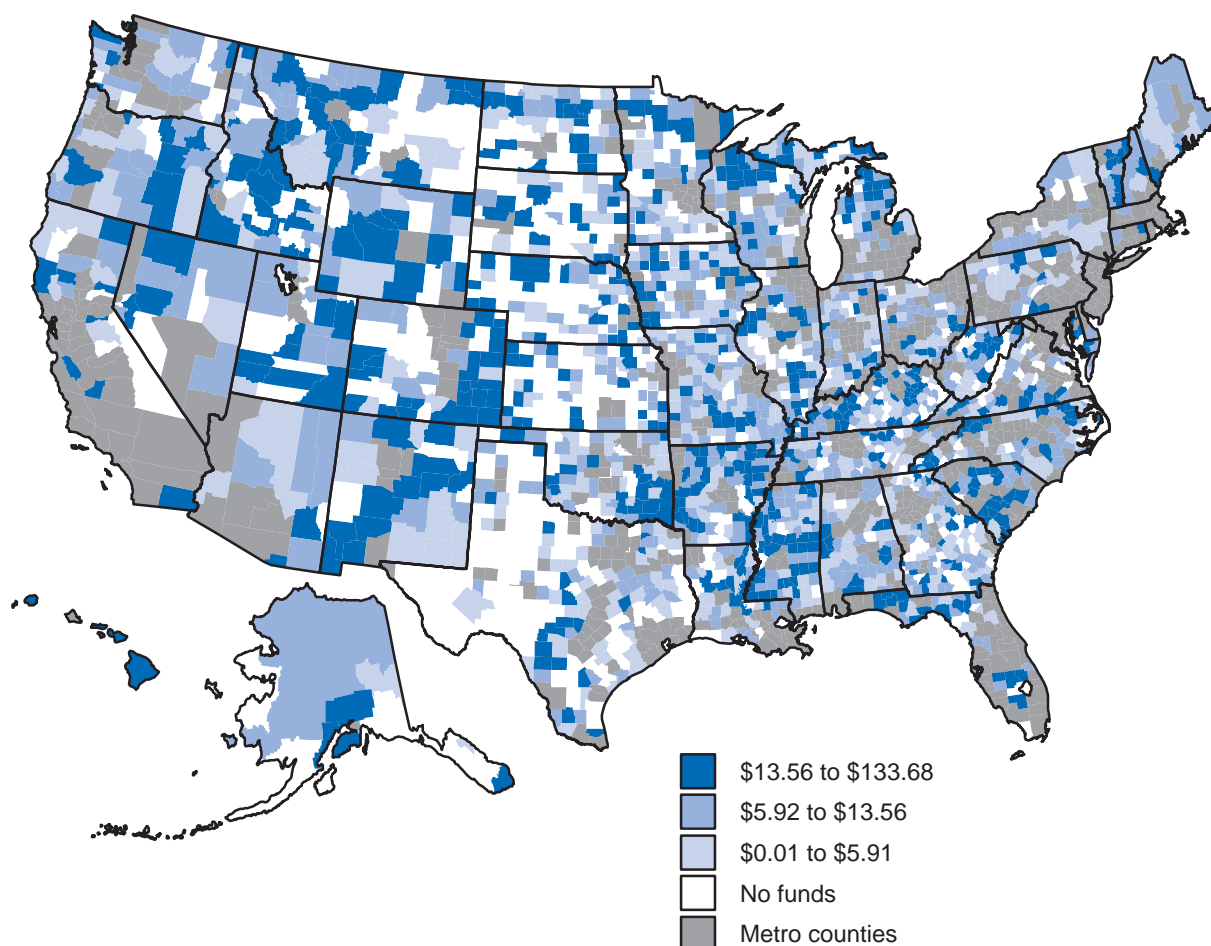
²Information on loan distribution for the 502 program was obtained directly from RHS.

Source: *Budget of the United States Government, Fiscal Year 2001*.

activity are expected for the small Credit Sales loans and Rural Housing Preservation grants programs.

The main HUD homeownership program is the Federal Housing Administration (FHA) single-family home mortgage program (financed by the Mutual Mortgage Insurance Fund). Although it is not targeted to rural areas, FHA finances many more homes than RHS programs, even in rural areas. FHA projects that new loan guarantees in 2000 will increase 8 percent over 1999, totaling about \$122 billion. FHA was particularly active in rapidly grow-

Figure 1

Direct USDA loans for nonmetro single-family housing, per capita, fiscal year 1998*Direct loans are concentrated in low-income areas and growing areas*

Source: ERS calculations using data from the Rural Housing Service and the Bureau of the Census.

ing nonmetro areas, many of them retirement or commuting counties or in the West. Still, nonmetro areas received less than 7 percent of the loan insurance provided by FHA in 1998.

In contrast, the Department of Veterans Affairs (VA) guaranteed home loan program is projected to reduce its disbursements of new loan guarantees by 22 percent, down to \$32 billion in 2000. In 1998, about 10 percent of this program's activity was in nonmetro areas. Nonmetro VA loan levels were highest, per capita, in growing areas such as the West and in retirement counties. And like the HUD programs, the VA program particularly benefited the more urbanized nonmetro areas in 1998.

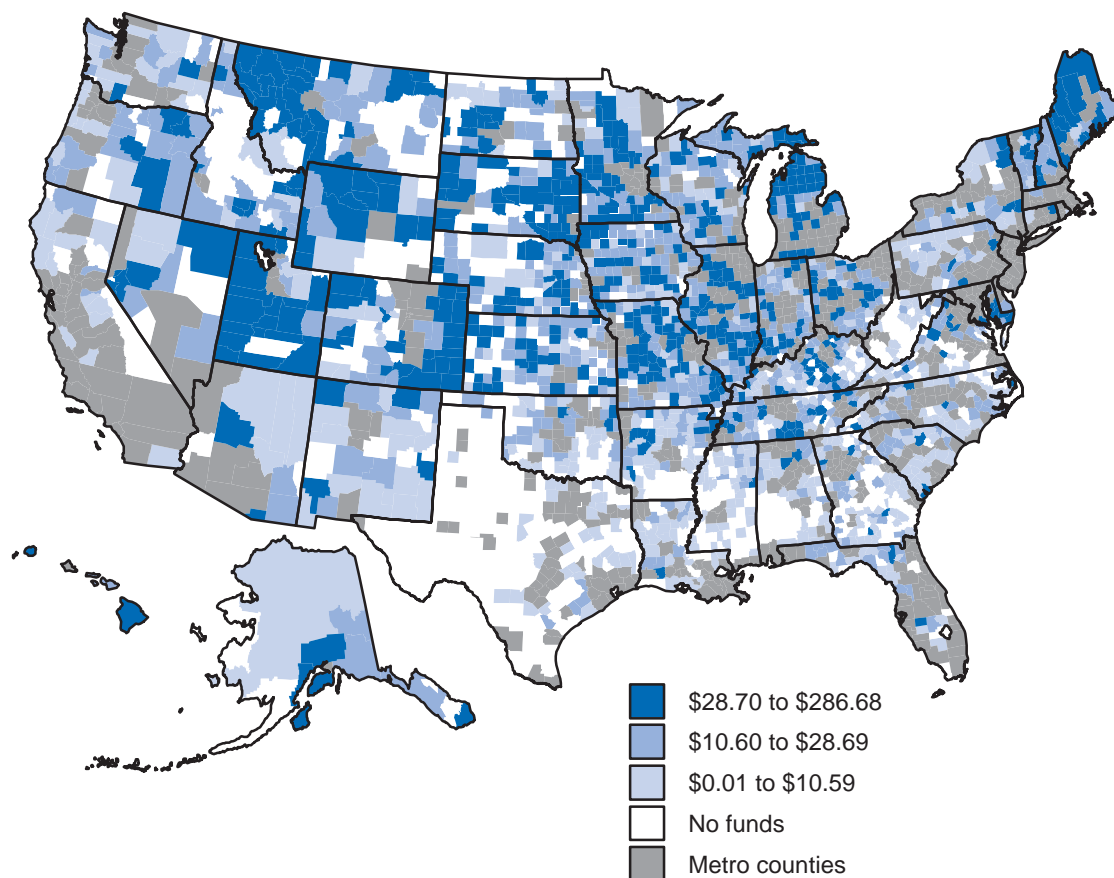
Multifamily Housing and Rental Assistance

USDA has two mortgage financing programs for rural multifamily rental housing. The section 515 direct loan program is the more significant, providing direct subsidized interest rate loans for the construction, purchase, rehabilitation, or repair of low-income rental housing. In 2000, this program will provide about \$114 million in loans, the same as 1999. The housing produced by this program is distributed nationally, although the Northeast, South, and totally rural areas such as colonias and Indian reservations particularly benefited in 1998. The section 538 guaranteed rental housing loan program will guarantee about \$100 million of market-rate loans in 2000, 25 percent more than in 1999.

Figure 2

Guaranteed USDA loans for nonmetro single-family housing, per capita, fiscal year 1998

The distribution is fairly even except for low levels in the South



Source: ERS calculations using data from the Rural Housing Service and the Bureau of the Census.

Funding for the RHS's smaller Farm Labor Housing loan and grant programs is higher in 2000. Loans are expected to rise from \$20 million to \$25 million in 2000, and grants from \$13 million to \$14 million. A supplemental disaster appropriation adds \$5 million to loans and \$3 million to grants in 2000. These programs, which help to provide housing for migrant and year-round farmworkers, also benefited from emergency assistance in 2000.

Rural rental assistance payments account for \$640 million, or about two-thirds of RHS's total program budget in 2000. Under this program, tenants pay 30 percent of their income for rent, and the rural rental assistance payments make up the difference between the tenant's contribution and the rent. Funding for this program, which rose 10 percent from 1999, allows RHS to renew existing contracts with about \$11 million left to support repair and rehabilitation of Farm Labor Housing projects as well as most new construction of Farm Labor Housing units. In 1998, payments from this program were greatest in the West and South, and in totally rural, farming, and poverty counties.

HUD provides considerable rental housing assistance in both urban and rural areas. Most HUD low-income rental assistance comes through its section 8 program, which is expected to provide about \$16 billion in 2000. HUD will spend another \$3 billion in outlays on its public housing capital fund, \$2.55 billion on its operating fund, \$610 million for its section 236 rental assistance program, and smaller amounts for other related programs. The total of about \$20 billion for subsidized housing is up 3 percent from 1999. Programs for the disabled and elderly have anticipated 2000 outlays of \$784 million, up 3 percent. HUD's

section 8 low-income housing assistance provides funds nationwide. Nonmetro areas received about 12 percent of the funding in 1998, particularly in the Northeast and urbanized nonmetro areas.

HUD has various other programs that directly assist housing in rural and urban areas. Rather than provide an exhaustive, comprehensive list of all such programs, here we will focus on several of the more important programs for rural areas. For example, the Community Development Block Grant (CDBG) program benefits rural areas primarily through the State and Small Cities programs, which were funded at \$1.27 billion in 2000. Funding from this program is distributed by the States and may be spent on a variety of objectives, of which housing is only one. The Rural Housing and Economic Development (RHED) program, with 2000 funding of \$25 million, awards competitive grants to support innovative housing and economic development activities at the State or local level, with most of the funding going to local activities through local nonprofits, community development organizations, and Indian tribes (local governments are not eligible). Both of these programs will operate at roughly the same levels in 2000 as in 1999.

HUD's Homeless Assistance Grant program is receiving increases in funding. Budget authority for this program grew from \$975 million in 1999 to \$1,020 million in 2000. Outlays for homeless assistance are expected to be \$961 million in 2000, nearly 50 percent more than in 1999. These funds support community activities to reduce homelessness.

HUD's HOME Investment Partnerships program represents an important housing development resource for both urban and rural areas. States receive and distribute 40 percent of the annual appropriation of \$1.6 billion dollars. Through this program, many very rural communities have seen new housing construction for the first time in many decades, often developed by rural nonprofit housing developers. Both low-income tenants and new homebuyers have benefited from these developments as well as existing homeowners who have had their units rehabilitated. Funding for this program did not change in 2000.

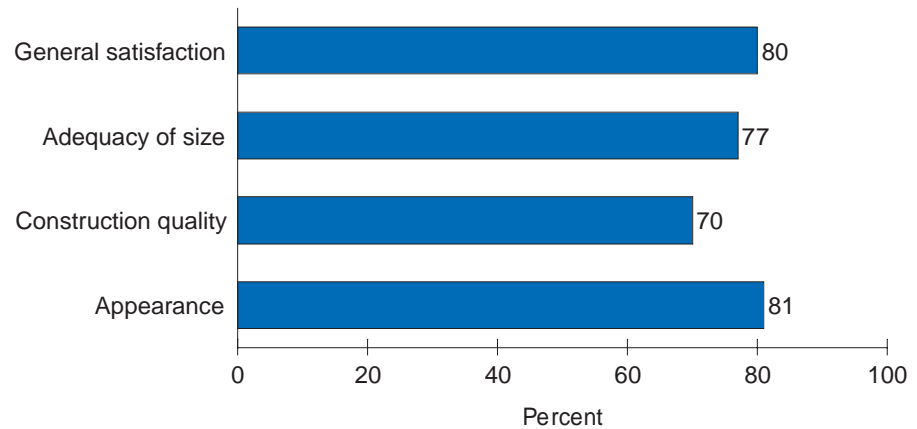
USDA's Single-Family Housing Program Has Been Popular With Borrowers

The first comprehensive survey of recent homebuyers using USDA's section 502 Single Family Housing Program (*Meeting the Housing Needs of Rural Residents: Results of the 1998 Survey of USDA's Single Family Direct Loan Housing Program*, RDRR-91) provided fresh insights. To participate in this program, households must have had low or very low incomes, been unable to obtain a home mortgage from another source, and not own an adequate home. Borrowers were typically first-time homeowners, under age 40, and had children. One-third of the household heads were single parents, 13 percent were Black, and 12 percent were Hispanic. One-fourth had previously received government rental assistance. Most were satisfied with their home, neighborhood, and the section 502 program (fig. 3). [Jim Mikesell, 202-694-5432, mikesell@ers.usda.gov; and Rick Reeder, 202-694-5360, rreeder@ers.usda.gov]

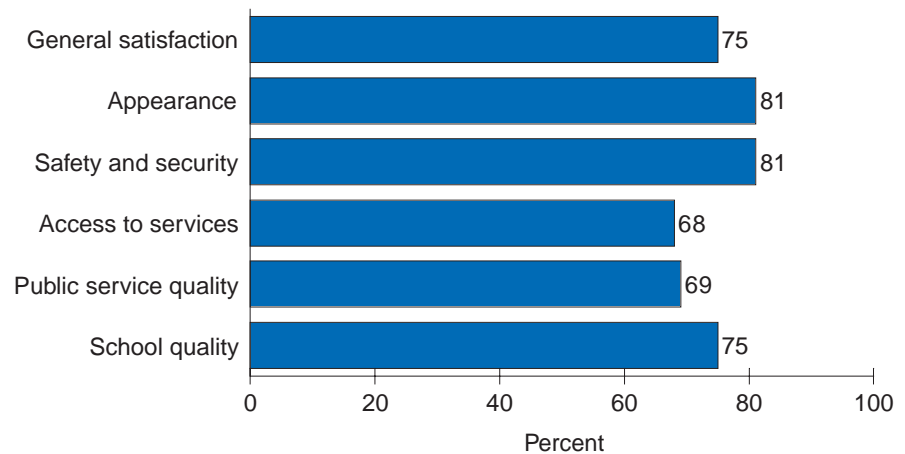
Figure 3

Participant satisfaction among recent single-family home borrowers dealing with USDA's loan program

High satisfaction with current home . . .



. . . and high satisfaction with current neighborhood



Note: High general satisfaction is based on scores of 8, 9, or 10 on a scale of 1-10, with 1 the worst and 10 the best. High satisfaction on the other neighborhood characteristics is based on ratings of good or very good on a five-group scale from very poor to very good.

Source: 1998 Survey of USDA's Single-Family Direct Loan Housing Program, ERS.